

CHAPTER 17

ELECTRONIC DATA INTERCHANGE

1701 INTRODUCTION

170101 General

The increased computerization in our society is triggering major changes in the organization of work. Paper-driven processes are being reengineered to capture the benefits of doing business electronically. Businesses are implementing electronic commerce to meet the needs of an increasingly competitive world. These trends in the economy are being mirrored in the Federal Government by many individual agency action as well as the cross-cutting National Performance Review.

A. Electronic Commerce (EC). Through EC the exchange of acquisition information between the private sector and the Federal Government should increase competition between the contractors doing business with the Federal Government. It is expected that competition will increase due to the improved access to Federal contracting opportunities for the more than 350,000 contractors doing business with the Federal Government. EC should help particularly the small businesses and other contractors who find access to bidding opportunities difficult under the current system. Using EC to reform the acquisition process has benefits for both the government and contractors. Some of the benefits to the government follow:

1. Lower prices.
2. Increased buyer productivity.
3. Reduced acquisition time and costs.
4. Better inventory control.
5. More timely and accurate payments to contractors in the government's \$200 billion annual payments.

B. Electronic Data Interchange (EDI). This is the computer to computer exchange of business information in a standard format between one or more parties (e.g., contractor, receiving activity, disbursing office). The standard format used must be agreed to by the parties exchanging information and is normally in agreement with the guidelines of the American National Standards Institute (ANSI), Accredited Standards Committee (ASC) X12 standards for EDI. Effective commerce between the government and contractors must be completed accurately and reliably, using accepted standard business transactions. In the government procurement and financial arenas, there are many opportunities for improvement in the flow of information between these two functions. Because EC will permit the buyer to solicit, receive, and analyze quotations, issue orders and notices of award, and distribute the orders without creating a document on paper, the procurement process will be faster, more efficient, and more responsive. Electronic transmission of information will virtually eliminate the problem of lost transactions and will help reduce the time needed to move a transaction through the system. EC also will provide a constant electronic flow of information from the buying office through the disbursing office's final payment. In addition, EC will help provide more timely and accurate payments through the expanded use of Electronic Funds Transfer.

C. Electronic Funds Transfer (EFT). It is DoD policy to encourage the use of EFT in the payment function.

1. When EDI is used in conjunction with EFT, the overall process may be expedited significantly. EDI eliminates invoice mail time, reduces payment advice notification time, and EFT expeditiously deposits funds due to each contractor's bank account. Currently, the U.S. Treasury and the Department of Defense

disburse approximately 40 million payments annually to contractors by checks and EFT transactions. Electronic commerce provides the government an opportunity for unlimited growth in the EFT world. All parties interested in participating in the EFT program must coordinate with and receive approval from the appropriate DFAS Center. All agreements should be in writing when information is to be exchanged electronically.

2. Payments made by EFT must conform to the requirements of the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement and applicable Treasury Department guidance.

a. EFT utilizes a Federal Reserve Bank (FRB) and its computer network to deposit funds into the checking or savings account of a person or a company. The FRB processes all EFT actions through the Automated Clearing House (ACH) network. The FRB also processes all ancillary transactions related to the original EFT transaction through the ACH network. All disbursing offices making payments to contractor invoices are eligible to participate in EFT operations. All participating disbursing offices shall execute a Memorandum of Understanding (MOU) with the FRB to detail the operating parameters and procedures for the conduct of contractor express operations. Payments may be transmitted to the FRB either by a magnetic tape or electronic file transmission. The actual method will be spelled out in the MOU.

b. For contractors paid by EFT, the payment date is the date of an EFT payment (settlement date). Payments made by the EFT mechanism shall be made so as to be received by the contractor's financial institution by the established payment due date. The processing time required to have an EFT transaction reach a financial institution should be part of the MOU with the FRB. On Saturdays, Sundays, and legal holidays, government offices are closed and business is not expected to be conducted. Thus, payments falling due on a Saturday, Sunday, or legal holiday may be made on the following business day without incurring a late payment interest penalty.

D. For additional information on Electronic Commerce, see Volume 5, Chapter 24, of this Regulation.

170102 System Controls

Prior to EDI implementation, disbursing offices will ensure that system controls are documented, tested, and certified. They also will provide reasonable assurance that the transmitted information is authorized, complete, correct, and secure. The disbursing office periodically will test the system for compliance with the original design documentation and any other later changes. Tests should confirm key processing procedures and controls are working and reliable. In the event that the internal controls related to the obligation, receipt of materials or services, and processing of invoices are inadequate or are not operating as intended, the disbursing office may require the source documents to support payment.

170103 Applicability

A. When an approved EDI system is implemented, the disbursing office is authorized to make use of the following electronically transmitted data when processing contractor payments.

1. Electronic Invoice. The electronically transmitted invoice will be treated the same as a hard copy invoice and must contain the same data elements as specified for a proper, hard copy invoice, see paragraph 070201. For audit purposes, the disbursing office will ensure that a copy of the electronically transmitted invoice is retained. Electronically transmitted invoices that need to be returned to the contractor may also be returned electronically. The transmitted invoice must be accompanied by an electronic message reporting the reason for return.

2. Electronic Signature. This is a means within an Automated Information System whereby a unique code is affixed to a document or file which allows only the activity's designated authority to certify a transmission and be authenticated by only the responsible person on the receiving end. The electronic

signature must include the certifying official's approval or disapproval, name, and title. It may be used in instances where an authorized signature must be present on a hardcopy document. For additional information, see paragraph 010304.

3. Electronic Receipt and Acceptance Certification. The electronic receipt and acceptance certification of the materials or services will be accomplished through the use of an electronic signature, paragraph 170103-(2).

4. Electronic Payment Certification. The certifying officer will verify the validity of expected payments to the disbursing office through the use of an electronic signature. Documentation required to support payments will be based on evidence of a valid contract, obligation document, receipt and acceptance, and invoice, whether issued by electronic certification techniques or hard copy. When EDI techniques are used, it generally is not necessary to physically transfer the hard copy documentation to the disbursing office for examination. However, in certain situations, the contractor may be asked to provide hard copy documentation.

B. Disbursing offices must further ensure that the transmitted data contains the necessary Prompt Payment Act information (e.g., invoice receipt date, material receipt and acceptance dates) required in the computation of the payment due date.